

PROPOSED RESOLUTION

AGENDA ID #14959

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5102
June 23, 2016

RESOLUTION

(RES. W-5102) LLANO DEL RIO WATER COMPANY. ORDER
AUTHORIZING A SURCHARGE OF \$4.68 PER MONTH, FOR A
DURATION OF 12 MONTHS TO RECOVER THE CONSERVATION LOST
REVENUE MEMORANDUM ACCOUNT.

SUMMARY

By Advice Letter 31, filed on May 2, 2016, Llano Del Rio Water Company (Llano), a Class D water utility, seeks to recover the lost revenues and increased operational costs, as a result of Llano's implementation of Tariff Schedule 14.1, Mandatory Water Conservation and Rationing Plan as recorded in its Conservation Lost Revenue Memorandum Account¹, from September 2015 through February 2016.

This Resolution grants a surcharge of \$4.68 per month, to be recovered over 12 months, for Llano to recover the lost revenues and increased operational costs incurred in its Conservation Lost Revenue Memorandum Account.

BACKGROUND

Llano, a Class D water utility, requests authority under General Order (G.O.) 96-B and Section 454 of the Public Utilities Code to increase rates to recover the lost revenues and increased operational costs incurred in its Conservation Lost Revenue Memorandum Account (CLRMA). Llano's present rates became effective on November 20, 2009 by approval of Llano's last general rate increase authorized by Resolution W-4801.

¹ By Advice Letter 28, effective July 20, 2016, the Commission granted Llano the establishment of a Conservation Lost Revenue Memorandum Account.

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AL 28, effective July 20, 2016, authorized Llano to establish a CLRMA to track and recover the lost revenues and increased operational costs for Llano, as a result of implementation of Tariff Schedule 14.1, Mandatory Water Conservation and Rationing Plan. Llano also requests affirmation of its activation of Stage 1 of its Schedule 14.1 tariff, effective July 24, 2015, pursuant to Resolution W-4976. The lost revenues and increased operational costs in the CLRMA from September 2015 through February 2016 amount to \$10,342 for Llano.

NOTICE AND PROTESTS

AL 31 was served on May 2, 2016 in accordance with the provisions of G.O. 96-B. A notice of the proposed change has been served to all parties listed on the service list in accordance with G.O.96-B, Water Industry Rule 4.1.

No protests have been received.

DISCUSSION

By AL 31, filed on May 2, 2016, Llano seeks to recover the lost revenues and increased operational costs, as a result of the Llano's implementation of Schedule 14.1, Mandatory Water Conservation and Mandatory Rationing Plan which Llano recorded in its CLRMA from September 1, 2015 through February 28, 2016.

The increase requested herein is for the purpose of recovering through a surcharge, on a dollar-for-dollar basis, the lost revenues and increased operational costs which Llano recorded in its CLRMA. The CLRMA was established on July 20, 2016 by approval of AL 28.

When a utility seeks recovery of costs recorded in a memorandum account, it has the burden to meet the following standards:

- 1) The utility acted prudently when it incurred these costs;
- 2) The utility paid reasonable amounts for these costs;
- 3) The memorandum account costs are not covered by other authorized rates; and
- 4) It is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates (see e.g., Ordering Paragraph 5 of Resolution (Res.) W-4824.)

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Based on the requirements discussed above, the Water Division (WD) finds that Llano acted prudently in incurring the lost revenues and increased operational costs recorded in its CLRMA. These costs were incurred in order to track cost savings associated with lower sales as well as increased operational costs and violation fines, penalties, and/or surcharges collected from implementing Schedule 14.1, Mandatory Water Conservation and Rationing Plan.

With respect to the 2nd standard, WD reviewed the lost revenues and increased operational costs of \$10,342 recorded in Llano's ledger as provided to WD, and has found these expenditures to be prudent and reasonable.

With respect to the 3rd standard discussed above, WD has reviewed Llano's last GRC, authorized on November 20, 2009, (see Res.W-4801), and has ascertained that Llano could not have anticipated the lost revenues and increased operational costs, as a result of implementation of Schedule 14.1, Mandatory Water Conservation and Rationing Plan. The expenditures accrued in its CLRMA could not have been included in the utility's previously authorized rates. Therefore, Llano did not receive revenues for the recently incurred expenses accrued in its CLRMA. Accordingly, recovering these expenses now would not amount to double recovery and is reasonable.

WD finds it appropriate for ratepayers to pay for these costs, since these costs were accrued to provide ratepayers with water service and keep the company running, thereby ensuring that the utility has a reliable and sufficient water supply, which is beneficial to its customers. Accordingly, it is appropriate for ratepayers to pay for this category of costs in addition to otherwise authorized rates and, therefore, Llano meets the 4th standard discussed above.

To minimize the impact of this amount on ratepayers, the surcharge has been spread over 12 months for Llano. Per guidance in Standard Practice U-27-W, Rule 64b, memorandum account amortization surcharges are to be spread over one year for under-collections below 5% of gross revenues.

The sum of \$10,342 is less than 5% of the current gross revenue of \$228,866 for Llano. Therefore, WD recommends a surcharge of \$4.68 per month, to be recovered over 12 months, for Llano. This surcharge will not result in a rate of return greater than the last authorized rate of return for Llano.

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Llano should be permitted to transfer the amounts recorded in its CLRMA to a balancing account for recovery. Llano should be permitted to recover the amounts in the balancing account by imposing a surcharge of \$4.68 per month, to be recovered over 12 months.

Llano also seeks affirmation of its activation of Stage 1 of its Tariff Schedule 14.1, effective July 24, 2015, pursuant to Resolution W-4976, which we affirm here as Llano complied with the procedures outlined in the Resolution² to activate Schedule 14.1. Llano initiated activation of Stage 1 of its Schedule 14.1 on July 24, 2015 and held its required public hearing with its customers on August 4, 2015. Llano did not receive any protests upon the activation of Stage 1 of its Schedule 14.1, so it began recording the necessary entries to its CLRMA starting September 1, 2015. Thus, Llano is in compliance with regards to activating its Tariff Schedule 14.1 in accordance with Resolution W-4976.

COMMENTS

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g)(3), this resolution is exempt from the 30-day period for public review and comment.

SAFETY

The resolution provides adequate revenues to the utility so that it can provide safe and reliable water service to its customers. The water served by the utility meets all applicable primary water quality standards set forth by the State Water Resources Control Board.

² Finding #10 of Resolution W-4976 states that a public hearing should be required for adding Schedule 14.1 to a utility's tariff, or when rationing is activated or when subsequent rationing stages are activated, but only if no public hearing on rationing has been held in the past 12 months.

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COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required.

FINDINGS

1. Llano Del Rio Water Company (Llano) seeks to recover the lost revenues and increased operational costs as a result of its implementation of Schedule 14.1, Mandatory Water Conservation and Rationing Plan, as recorded in its Conservation Lost Revenue Memorandum Account (CLRMA). The CLRMA was established on July 20, 2014 by approval of AL 28.
2. By Advice Letter (AL) 31, filed on May 2, 2016, Llano seeks to recover the lost revenues and increased operational costs which Llano recorded in its CLRMA from September 1, 2015 through February 28, 2016.
3. Llano incurred and recorded in the CLRMA from September 1, 2015 through February 28, 2016, a total amount of \$10,342.
4. The expenses recorded in Llano's CLRMA of \$10,342 are prudent, reasonable, and not covered by other authorized rates. Also, it is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates.
5. Llano could not have reasonably anticipated these expenses in the CLRMA in its last general rate case, which became effective on November 20, 2009 for Llano.
6. It is appropriate for ratepayers to pay for these costs, since these costs were accrued to provide water service to ratepayers, which is beneficial to its customers.
7. AL 31 was served on May 2, 2016, in accordance with the provisions of General Order (G.O.) 96-B.
8. Llano should be permitted to transfer the amounts in its CLRMA to a balancing account for recovery.

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9. Llano should be permitted to recover the amounts in the balancing account by imposing a surcharge of \$4.68 per month, for a period of 12 months, for Llano customers.
10. This surcharge will not result in a rate of return greater than the last authorized for Llano.
11. Llano complied with the requirements outlined in Resolution W-4976 to activate Schedule 14.1, so it is affirmed here that Stage 1 of its Schedule 14.1 tariff became effective July 24, 2015.

THEREFORE IT IS ORDERED THAT:

1. Llano Del Rio Water Company is permitted to transfer the amount of \$10,342, in its Conservation Lost Revenue Memorandum Account to a balancing account for recovery over a period of 12 months. Accrued interest at the 90-day commercial paper rate may be added on the uncollected amounts from the effective date of this Resolution.
2. Llano Del Rio Water Company is permitted to recover the amounts in the balancing account reflected in Ordering Paragraph 1 above by imposing a surcharge of \$4.68 per month, for a period of 12 months.
3. Llano Del Rio Water Company shall track the revenue from a surcharge of \$4.68 per month, for a period of 12 months, reflected in Ordering Paragraph 2 above in a balancing account and account for any over or under collected revenues in its next general rate case.

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4. Authority is granted under Public Utilities Code Section 454 to Llano Del Rio Water Company to file a supplemental advice letter with the revised surcharge rate schedules and concurrently cancel its presently effective Schedule No. 1, Metered Service. The effective date of the revised rate schedules shall be five days after the date of filing.
5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at the Public Utilities Commission of the State of California on June 23, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

LLANO DEL RIO WATER COMPANY
ADVICE LETTER NO. 31
SERVICE LIST

Palmdale Water District
2029 E Avenue Q
Palmdale, CA 93550

L.A. County Public Works
900 S. Fremont Ave.
Alhambra, CA 91803